

2QFY11 RESULTS UPDATE

28 April 2011

Tenaga Nasional Berhad

Price : RM6.08

Market Capitalization : RM33,142.9 mln

Market : Main Market

Sector : Trading / Services

Recommendation : Hold

Stock Code: 5347

Tenaga: 2QFY11 results

FYE Aug (RM m)	Quarter-on-Quarter			Year-on-Year		Year to date		
	Feb 11	Nov 10	% chg	Feb 10	% chg	1HFY11	1HFY10	% chg
Turnover	7,503.5	7,726.4	-2.9%	7,389.1	1.5%	15,229.9	14,727.4	3.4%
Operating profit	582.6	1,253.4	-53.5%	1,320.6	-55.9%	1,836.0	2,561.8	-28.3%
Foreign translation gains	152.4	(104.8)		144.4		47.6	99.0	
Interest cost	(63.5)	(160.0)		(223.4)		(223.5)	(442.5)	
Pre-tax profit	722.3	997.6	-27.6%	1,262.3	-42.8%	1,719.9	2,235.4	-23.1%
Tax	(90.8)	(282.7)		(260.8)		(373.5)	(536.4)	
MI	(1.2)	(2.0)		(1.4)		(3.2)	7.4	
Net profit	630.3	712.9	-11.6%	1,000.1	-37.0%	1,343.2	1,706.4	-21.3%
EPS (sen) - basic	14.3	16.4		23.1		30.3	39.3	
Op profit margin	7.8%	16.2%		17.9%		12.1%	17.4%	
Pre-tax margin	9.6%	12.9%		17.1%		11.3%	15.2%	
Net profit margin	8.4%	9.2%		13.5%		8.8%	11.6%	
Net assets (RM)	5.43							

2QFY11 Results Review

- Tenaga Nasional Bhd (TNB) posted a 1HFY11 core net profit of RM1.29 bln (excluding foreign translation gains), which accounts for 47% of our FY11 projection. We deem the results below our expectations as we expect continued weakness in the Group's 2HFY11 performance, which remains hampered by escalating fuel costs.
- 1HFY11 revenue rose 3.4% y-o-y to RM15.23 bln chiefly on the back of 3.6% y-o-y growth in electricity demand, led by the commercial and consumer sectors which recorded 5.3% and 5.0% y-o-y growth respectively.
- Notwithstanding the higher revenue, 1HFY11 EBITDA declined 16.5% y-o-y to RM3.78 bln on higher fuel costs. The Group's fuel expenses surged 31.4% y-o-y to RM2.72 bln in tandem with the rising coal prices. The average coal price incurred in 1HFY11 was USD100/mt vs. RM80.90/mt in 1HFY10 (+23.6% y-o-y). TNB's profitability was further weighed down by higher coal usage due to shortage in supply of natural gas from Petronas. In addition to the increase in fuel costs, IPP payment in 1HFY11 too, rose 7.1% y-o-y to RM6.33 bln. These factors had resulted in EBITDA margin erosion to 24.8% in 1HFY11 from 30.8% a year ago. Balance sheet-wise, TNB's NTA/share stood at RM5.43 with net gearing of 0.4x as at end-February 2011.
- TNB's prospects in 2HFY11 remain very challenging. In terms of demand, we foresee some slowdown in the manufacturing activities as a result of the earthquake and tsunami in Japan which affected supply of component parts. Meanwhile, EBITDA margin would continue to be under pressure given the prevailing high coal prices as well as the expected further disruption in gas supply from Petronas due to scheduled maintenance works. Furthermore, we believe any upward revision in the tariff rates is unlikely to happen anytime soon with the constant talks of an impending general election.

- The only reprieve for the Group in the near-term is the weakening of USD which helps to partially offset the high coal costs. In light of these developments, we reduce our FY11 revenue and core net profit (excluding foreign translation gains) estimates by 1% and 9% to RM31.68 bln and RM2.53 bln respectively.
- TNB declared an interim gross dividend of 4.5 sen less 25% tax for the quarter under tax (2QFY10: 6.0 sen less 25% tax).
- On the corporate front, TNB has in March 2011 acquired a 22.12%-stake in Integrax Bhd (Integrax) for a total cash consideration of RM106.5 mln. Integrax is principally involved in port operations, marine services, industrial property and mining. In particular, Integrax, through one of its subsidiaries as well as an associate company, provides coal handling services and port facilities to TNB's power plant in Manjung. The acquisition is strategic to TNB as it enables the Group to secure and have better control over the coal handling services for its Manjung plant.

Recommendation

With cost escalation continues to be a bane to the Group's prospective earnings, we remain neutral on TNB, but lower our DCF-derived fair value marginally to **RM6.60** (from RM6.80) following the downward revision in our earnings projection.

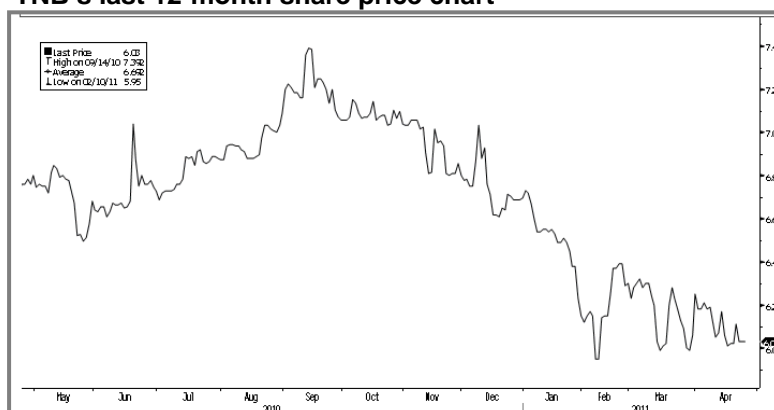
Per Share Data

FYE Aug	FY09	FY10	FY11f
Book Value (RM)	4.80	5.29	5.80
Cash Flow (RM)	0.83	1.31	1.16
Earnings (sen)	16.9	58.8	46.3
Net Dividend (sen)	10.7	15.6	14.0
Payout Ratio	63.0%	26.5%	30.0%
PER (x)	35.9	10.3	13.1
P/Cash Flow (x)	7.4	4.6	5.2
P/Book Value (x)	1.3	1.1	1.0
Net Dividend Yield	1.8%	2.6%	2.3%
ROE	3.5%	11.1%	8.0%
Net Gearing (x)	0.6	0.4	0.4

P&L Summary (RM mil)

FYE Aug (RM mln)	FY09	FY10	FY11f	FY12f
Revenue	28,785.6	30,320.1	31,684.5	33,490.5
EBITDA	7,260.4	8,132.9	7,857.8	8,473.1
Depreciation	(3,561.5)	(3,950.2)	(3,802.1)	(4,085.8)
Net Int Exp	(949.7)	(861.2)	(826.8)	(876.4)
Pre-tax Profit	1,543.1	4,022.1	3,273.9	3,556.8
Eff. Tax Rate	44.7%	20.5%	23.0%	23.0%
Net Profit	917.9	3,201.9	2,525.9	2,743.8
EBITDA Margin (%)	25.2%	26.8%	24.8%	25.3%
Pre-tax Margin (%)	5.4%	13.3%	10.3%	10.6%
Net Margin (%)	3.2%	10.6%	8.0%	8.2%

TNB's last 12-month share price chart



source: Bloomberg

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RATING GUIDE

BUY	Price appreciation expected to exceed 10% within the next 12 months
SELL	Price depreciation expected to exceed 10% within the next 12 months
HOLD	Price movement expected to be between -10% and +10% over the next 12 months from current level

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